

**LODI CITY COUNCIL  
SPECIAL "TOWN HALL" CITY COUNCIL MEETING  
CARNEGIE FORUM, 305 WEST PINE STREET  
WEDNESDAY, JANUARY 31, 2001**

A. ROLL CALL

The Special "Town Hall" City Council meeting of January 31, 2001 was called to order by Mayor Nakanishi at 7:04 p.m.

Present: Council Members – Hitchcock, Howard, Land, Pennino and Mayor Nakanishi

Absent: Council Members – None

Also Present: City Manager Flynn, City Attorney Hays and City Clerk Blackston

City Attorney Hays announced that at the January 31, 2001, 6:00 p.m., Special Closed Session meeting held pursuant to Government Code 54957.6, the Council directed the City Manager to enter into negotiations regarding employee health care coverage.

B. TOPIC

B-1 "Electric Utility issues"

Mayor Nakanishi reported that there are approximately 30 municipal-owned utilities (MOU) in California. Citizens are owners of Lodi Electric Utility. In comparison, investor-owned utilities such as PG&E, Southern Edison, and San Diego Gas and Electric have shareholders and elect a board of directors. Profits of investor-owned utilities are returned to the shareholders.

Council Member Howard recommended the following resources for information on the history of Lodi: "Mountain Men to Astronauts" by Naomi McCallum Carey; "Lodi A Vintage Valley Town" by Christi Kennedy; City government and history information available in the City Clerk's Office; and the local area reference section of the Library. Ms. Howard summarized the history of Lodi Electric Utility. The Carey brothers, twins, Ed and Fred, moved to Lodi in 1893 and established a planing mill in the downtown area. Soon thereafter, they purchased Bay Cities Gas, Water and Electric Works, which was located on the southeast corner of Main and Locust Street. They renamed the company Lodi Water, Gas & Electric. The electric utility services for Lodi's population of 1,000, consisted of a well 8 inches in diameter and 104 feet deep; a small steam engine; and a 15,000 gallon wooden water tank. Due to increased demand during the first year, the Carey Bros. dug another well, improved the steam engine, added a boiler, built a new pumping plant and constructed another 60,000 gallon wooden water tank. Customers were charged \$2.00 per month for utility services. The City of Lodi was incorporated in 1906. In 1910 the City purchased the Carey Bros. utility company for \$35,000. At that time Lodi maintained approximately five miles of electric distribution lines and 500 utility poles. Today, with a population of 57,000, Lodi has over 230 miles of distribution lines and 5,400 utility poles. Lodi Electric Utility is located at 1331 South Ham Lane.

With the aid of overheads (filed) Council Member Hitchcock reported that the sale of electricity brings \$37,880,000 of revenue to the City. Electric Utility transfers \$4,410,000 to the City's general fund, which is used to enhance services related to Parks and Recreation, Police, Fire, etc. Electric Utility owns and generates 80% of its power and purchases 20% on the market. Today's market rate for electricity is anywhere from \$50 to \$400 a kilowatt hour. AB1890 addressed electric utility deregulation and public benefit programs. Public benefit programs return approximately 2.5% back to the community, 85% of which goes to energy efficient improvements (e.g. lighting, heating, air conditioning, insulation, etc). Approximately 400 citizens have participated in the program and have saved an average of 25% each year. Five percent of the public benefit programs go toward research and development. MOU benefits include lower costs to customers and greater reliability of power.

Council Member Land stated that in 1948, Lodi received a notice from PG&E that they were going to increase rates by 36%. In 1950, due to concern about continued reliance on investor-owned utilities (IOU), a group of cities established the Northern California Municipal Electric Association (NCMEA). Lodi attempted to purchase power from Western Power, but was denied because the company had a contract with PG&E. In 1968, the Northern California Power Association (NCPA) was established under the California Joint Powers Act. This allowed NCMEA to enter into contracts and PG&E promised to wheel electricity to Lodi. NCPA consists of the cities of Alameda, Biggs, Gridley, Hillsburg, Lodi, Lompoc, Palo Alto, Roseville, and Ukiah. Other non-pool members of NCPA include the Port of Oakland, Redding, Santa Clara, Turlock Irrigation District, Truckee, Donner; and some associate members are Bay Area Rapid Transit (BART), Davis, and Santa Barbara. Membership is open to municipalities, rural electric cooperatives, irrigation districts, and other publicly-owned entities interested in the purchase, aggregation, scheduling, and management of electrical energy. Lodi Electric Utility has hydro-plants, geothermal plants, and combustion turbines. Council Member Land displayed photos via a PowerPoint presentation (filed) of some of Electric Utility's generation resources. Hydro-generation is conducted along the Stanislaus River, which starts at Spicer Reservoir near Bear Valley. The two turbines there create approximately 5 megawatts of electricity. The water flows down to another storage facility called the McKay Reservoir, which creates 1 to .5 megawatts of electricity. The Collierville Power House produces 244 megawatts of electricity. Two geothermal plants, each with two units, are located in the Sonoma Valley and produce approximately 160 megawatts of electricity. Electric Utility also owns 68 production wells, 6 injection wells, 102 miles of underground well pipe, 8 miles of stream gathering pipe, and 5 miles of injection pipe. Combustion turbines are located in Roseville, Alameda, and Lodi.

Mayor Pro Tempore Pennino reported on the current energy situation from the IOU perspective and acknowledged that he is an employee of PG&E. He attributed the current problem with electricity supply throughout California to a hot summer, cold winter, and booming economy. Energy demand grew by 30% in the 1990s, with generation increasing only 6%. California receives electricity mainly from Arizona, New Mexico, Washington, and Oregon. Energy demand in these states has also grown, so they are reducing the amount sent to California. In 1992, large industrial customers made it known that they wanted the flexibility of buying power from anyone they chose. Large industrial customers and utilities worked with legislation to create the assembly bill that started deregulation in 1996. The legislation mandated the three largest utilities, Southern California Edison, San Diego Gas and Electric, and PG&E, to freeze their rates from 1998-2002. In June 1999, the average cost for PG&E to buy generation was approximately 3.4 cents per kilowatt hour. In June 2000, the cost per kilowatt-hour rose to 16 to 17 cents. Due to the rate freeze in effect, PG&E has subsidized ratepayers \$6.7 billion dollars since August 2000. PG&E is now on the verge of bankruptcy. PG&E generates 1/3 of their own power, they are under contract for 1/3, and rely on the spot market for the remaining 1/3.

With the aid of overheads (filed) City Manager Flynn reported that in 1996 electric rates in California were the highest in the United States. Electric rates effect jobs and the ability to compete nationally and internationally. When the price of electricity rises, the price of products increase. The intent behind AB1890 was to deregulate power, remove the Public Utility Commission from the power business, and turn the power market over to the market itself. Theoretically, in a free market competitive costs will drive the cost down. Unfortunately, California is now faced with high prices and inadequate power supply. Two organizations were created to help facilitate a market economy in power: 1) the Power Exchange; and 2) the Independent System Operator (ISO). Retail rates have been frozen (that have been sold to customers throughout California by the IOUs), but the wholesale rates have gone up based upon supply and demand. AB1890 required the IOUs to sell off at least 50% of their generation facilities. There is suspicion that those who bought the

power may be manipulating the market. Contributing to the current inadequate power supply is that many plants had to be brought down for maintenance. This was necessary because they had been operating at peak level during the summer to meet high demands. The price of natural gas has also increased.

Electric Utility Director Vallow, explained that the City Council serves as Lodi Electric Utility's board of directors and regulatory authority. Lodi ratepayers save 15-30% on average for electricity due to having a municipal-owned utility. Electric Utility has an annual power budget of \$28 million. Power is purchased off the spot market during the winter because costs are typically much lower. This year, however, the cost was anticipated to be \$24 million for each of the months of January, February, and March.

PUBLIC COMMENTS:

- Donna Phillips asked whether Electric Utility would still have to purchase power off the spot market if customers in Lodi conserved 20%.

Electric Utility Director Vallow replied that conserving energy is always a good idea, but the conservation efforts suggested by Ms. Phillips would not significantly impact the way Electric Utility buys or sells power.

- Walter White asked what assistance is available to senior citizens with high gas bills.

Mayor Pro Tempore Pennino explained that natural gas has been deregulated for approximately ten years. There is a shortage of gas throughout the United States. Most of the electric generation plants use natural gas and a lot of the gas that used to come to California is now going to the east coast. PG&E, Lodi Electric Utility, and the Salvation Army have programs available for low income citizens.

Electric Utility Director Vallow added that Electric Utility offers free home energy audits, which can reduce cooling and heating bills by 20-30%.

- Dennis Haugan asked what \$400-\$500 a megawatt hour equates to customers.

Electric Utility Director Vallow responded that when Electric Utility pays \$400 a megawatt hour they are charging ratepayers \$50 a megawatt hour, or the equivalent of 5 cents a kilowatt hour. Due to variances in buying and selling power, the impact to Electric Utility's budget is not known for approximately 90 days after the fact.

Dennis Haugan asked what the City is doing to assist large businesses in the community.

Electric Utility Director Vallow stated that the City has special arrangements with commercial and industrial customers. Mr. Vallow commented that he is opposed to the actions taken by the California Public Utilities Commission, which have placed the greatest burden on large businesses. He pointed out that if businesses fail, people will be unemployed.

Mayor Pro Tempore Pennino stated that in his opinion the rolling blackouts are due in part to the transmission constraint between Los Banos and Bakersfield, which is not allowing electricity to flow northward from southern California. He explained that the way the grid system is set up in California, everyone has a block number. Each block represents 5% of the electrical load. When ISO orders PG&E to lower 5% of the electric load, they shut the breakers off at the substation for that circuit.

Electric Utility Director Vallow reported that the state has been in a stage three alert for 17 days. Last Sunday, Lodi Electric Utility was generating 95 megawatts of power and consuming only 38. More than twice Lodi's actual consumption has been provided to the California grid.

- Walter White noted that a great deal of water is wasted by allowing cold water to go down the drain while waiting for it to warm up to adequate bathing temperature.

Mayor Pro Tempore Pennino replied that instant hot water can be obtained by installing a recirculating pump, however, the pump itself requires electricity.

In response to City Manager Flynn, Mr. Vallow reported that due to state regulations, Electric Utility's generation facilities can run at a maximum of 7 hours a day, 680 hours a year. The turbine facility across from the General Mills plant is utilized to only 30% of its potential.

In reply to Council Member Hitchcock, Mr. Vallow stated that in his opinion there should not be an energy shortage at this time of year and he attributes the current crisis to an IOU credit shortage. There may be a legitimate shortage of energy this summer due to low rainfall and snow pack. He explained that rolling blackouts are intended as a control or release valve on the grid and without them the grid would go into a voltage collapse. In that event, it would be 8 – 20 hours before it could be brought back up again.

- Virginia Snyder stated that Electric Utility conducted a free energy audit of her home which helped to decrease her energy bills and she urged other citizens to take advantage of the program.
- Walter White commented that Scotland uses nuclear power and asked if it might be a solution to California's energy crisis.

Electric Utility Director Vallow replied that even before environmental regulations were put in place, it took approximately 15 years to build a nuclear power plant.

- Donna Phillips questioned why Lodi, with an MOU, has to participate in the rolling blackouts. She asked if it would still be necessary to participate if citizens voluntarily turned off their power for a certain amount of time during this timeframe.

Electric Utility Director Vallow replied that conservation may help Lodi and the state get through the high demands during the summer months, but it is not feasible to coordinate an adequate amount of voluntary power conservation during the specific times that the state calls for a decrease in power consumption.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

There being no further business to come before the City Council, the meeting was adjourned at 9:07 p.m.

ATTEST:

Susan J. Blackston  
City Clerk